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Testimony of

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before

Secretary Michael Johanns

United States Department of Agriculture

SUBJECT:

Current Fertilizer Costs to the Retail Dealer and Growers

November 3, 2005

My name is Scott McKinnie, Executive Director of Far West Agribusiness Association. This 5-state regional trade association represents the fertilizer and agrichemical industry. We are involved in a variety of policy issues that affect our industry, including but not limited to environmental issues, security issues, agronomic and safety training, and others.

We represent over 150 corporate members who employ upwards of 2000 people throughout the Pacific Northwest. The vast majority of these individuals lives and works in rural communities they serve. Thus, the current crisis before us is more than just a 'grower' issue. It is a rural economic issue. The dollars earned by the growers throughout rural America are turned many times over in the local economies. Thus, when growers suffer, so do all the businesses in the local economy. From the grocery store, hardware store, drug store and yes to the fertilizer dealer, all are affected when the farm economy goes south. As a former Governor from a predominately rural state, I'm sure you can appreciate these thoughts.

You have been hearing heart felt concerns from a wide cross section of the agricultural community during these forums across the country. And you have heard them today from the Northwest. Right now, one of the key issues you've been hearing is the increasing costs of crop inputs, including fertilizer. These are very real issues that cannot be put on the back shelf for later consideration.

Some of the answers to these problems, sadly, are in areas with which in not in the purview of USDA. Your counterpart in the US Department of Energy needs to use authority granted to him in the recently enacted Energy Bill to develop rules that provide incentives for construction of natural gasification facilities in the US.

Here's why this is important. There is a severe natural gas crisis in America. I'm sure you are aware that natural gas is the basic feedstock for the production of nitrogen fertilizer. It represents 70%-90% of the production cost for one-ton of anhydrous ammonia. And this is the building block for most other forms of commercial nitrogen plant ingredients. Nationally, the fertilizer industry uses about 3% of total natural gas consumed.

But the fertilizer industry isn't the only agricultural user of natural gas. The farm sector uses significant amounts of it for crop drying, food processing, heating and other uses. Thus, it is no small issue for the agricultural community as a whole.

The current crisis is taking a heavy toll on the nitrogen fertilizer producers and others in the supply chain. This toll is a very real threat to the stability of domestic nitrogen production. Up to now, domestic production has supplied about 50% of grower nitrogen needs in the country.

Costs of nitrogen production have reached all time highs. And this is forcing many US plants to shut down. The slack is being taken up by imports from China, Russia, the Middle East and the Caribbean. That means the jobs that go into manufacturing nitrogen are going to these foreign countries. Thus, not only are we importing oil, we are also becoming increasingly dependent on foreign sources of fertilizer.

Fertilizer is a commodity, thus is subject to the market highs and lows like any other commodity. That means pricing fluctuations are dependent on world wide market pressures, just like other commodities. Thus the prices paid for fertilizer in the Palouse are partly set by conditions on the other side of the world. Prices paid by growers in the spring of 2005 were the highest on record. The average US ammonia production costs have doubled from 1999 to 2003. And by all accounts, prices paid by growers and production costs are not stopping there.

A direct result of the natural gas crisis is that 21 ammonia production facilities have closed since June 1999. Sixteen are permanently shut down. This represents a 20% drop in total production capacity. Five plants are

currently idle. While our production levels have dropped to 11.70 million tons in FY 04, the levels of ammonia imports have increased to 10.36 million tons in the same timeframe. Thus, the US fertilizer industry which has supplied 85% of our domestic needs from US based operations in the 1990's now relies on imports for nearly 45% of our supplies.

Add to this, in the past few weeks, three of the US largest remaining nitrogen producers have announced they are shutting down or idling their facilities which will result in a production decrease of an additional 50%. In a nutshell, without a push towards addressing the natural gas supply (or more aptly the lack of natural gas supply) the industry may be forced to idle the remaining production facilities. Energy conservation, renewable fuels and increased imports of Liquefied Natural Gas are important, but that doesn't solve the problem alone.

While this discussion is primarily on natural gas specifically, other fertilizer products are affected as well. Phosphate is a rock that is mined. The US is the largest producer and exporter of phosphate. Global demand for this commodity has driven the costs higher. Add to this the use of ammonia in the making of ammonium phosphate fertilizer. Production costs have risen 20% and will likely continue higher.

Secretary Johanns, I know that none of this is within the scope of USDA rules. However, we are asking you to stress to your counterpart, US Energy Secretary Samuel Bodman, that this is a critical to our food security of the United States.

Allowing natural gas exploration off the coasts of Florida and Alabama are important to all of us in this room. The Agricultural Energy Alliance, consisting of 97 state, regional and national agricultural organizations has been working on getting this accomplished. Agriculture is united in getting energy security. We ask that you support that as well.

Thank you.



Agriculture Energy Alliance

Representing agriculture as a producer and consumer of energy

Agribusiness Association of Iowa
Agribusiness Council of Indiana
Agricultural Council of California
Agricultural Retailers Assn.
Agrilience, LLC
Agrium Inc.
Alabama Crop Management Assn.
American Farm Bureau Federation
American Plant Food Corporation
American Soybean Assn.
Arkansas Plant Food Assn.
Ben-Trei Ltd.
Brandt Consolidated
CF Industries
CHS Inc.
California League of Food Processors
Chemistry Industry Council of Illinois
CoBank (CO)
Colorado Grain & Feed Assn.
Crop Production Services
CropLife America
D.B. Western, Inc.—Texas
Delaware Maryland Agribusiness Assn.
Diamond of California
Far West Agribusiness Assn. (WA)
Florida Fertilizer & Agrichemical Assn.
Georgia Agribusiness Council, Inc.
Georgia Feed & Grain Assn., Inc.
GROWMARK, Inc.
Hartung Brothers, Inc.
Hawaiian Alliance for Responsible
Technology & Science
Helena Chemical Company
Illinois Fertilizer & Chemical Assn.
Indiana Grain & Feed Association
Indiana Plant Food & Ag Chemicals Assn.
Intermountain Farmers Assn.
International Chemical Corporation
International Commodities Export Corp.
International Raw Materials Ltd.
Iowa Institute for Cooperatives

JR Simplot Company
Jim Hicks & Company
Kansas Agribusiness Retailers Assn.
Kansas Grain and Feed Assn.
Land O' Lakes, Inc.
Louisiana Ammonia Producers
MFA Incorporated
Mayo Fertilizer Inc.
Michigan Agri-Business Assn.
Minnesota Agri-Growth Council
Minnesota Crop Production Retailers
Missouri Ag Industries Council, Inc.
Montana Agricultural Business Assn.
National Association of Wheat Growers
National Barley Growers Assn.
National Chicken Council
National Corn Growers Assn.
National Council of Farmer Cooperatives
National Sorghum Producers
National Grange
National Renderers Association, Inc.
National Sunflower Assn.
National Turkey Federation
Nebraska Agri-Business Assn.
North Dakota Agricultural Assn.
Northern Ag Suppliers, Inc.
Oklahoma Ag Retailers
Oregon Wheat Growers League
Plant Food Association of North
Carolina, Inc.
PotashCorp
Rocky Mountain Agri-Business Assn.
Society of American Florists
South Carolina Fertilizer and
Agrichemical Assn.
South Dakota Agri-Business Assn.
Southern Crop Production Assn. (GA)
Southern States Cooperative, Inc.
Tennessee Agricultural Production Assn.
Tennessee Farmers Cooperative

Continued

**Terra Industries
Texas Ag Industries Assn.
Texas Agricultural Cooperative Council
The Andersons, Inc.
The Fertilizer Institute
The McGregor Company (WA)
The Mosaic Company
3-D Fertilizer
U.S. Canola Assn.
USA Rice Federation
United Suppliers, Inc.
Virginia Crop Production Assn.
Virginia Poultry Federation, Inc.
West Central Inc.
Western Peanut Growers Association (TX)
Western Plant Health Association (CA)
Wheeler Bros. Grain and Fertilizer Co.
Willard Agri-Service of Frederick, Inc. (MD)
Wisconsin Fertilizer and Chemical Assn.**

November 2, 2005